

Hey, why are the costs per parcel so different between the Balboa Island and Little Island utility undergrounding projects?!?

Here are some of the reasons why:

- In the 10 years since the Little Island project, Edison's and AT&T's costs have gone up by 38% and 16%, respectively (**\$2,425/parcel**). Frustratingly, neither Edison nor AT&T are required to itemize costs – they just send an invoice and expect to be paid.
- More importantly, the Little Island undergrounding project (AD #78) got a deal, a good deal. The City's taxpayers ended up subsidizing the Little Island project with staff time, construction inspection time, a contingency and street repair that the City Council later said should not be repeated as it is unfair to the rest of the taxpayers.
- After the Little Island project, the City Council changed its policy. Some of the changes were very significant and affected the Balboa Island project (AD #87) in a major way – such as:
 - AD #78 got so many complaints for the road patchwork afterwards that the City: (a) had to complete a \$400K road project at Little Island immediately after the undergrounding at taxpayer expense; and (b) started requiring “whole panel” road repair (not just strips) when an AD project is in an area with good pavement conditions. Whole panel replacement is very costly. Adding \$400K to AD #78 plus an 8% contingency would have added **\$1,887/parcel** – still less than the **\$2,907/parcel** that AD #87 was going to have to pay, but street paving costs went up over the last nine years too!
 - AD #78 also generated complaints from residents about poor customer service by the contractor. So the City said that if a project was a large one, it would assign a full-time City staffer and an independent construction inspector to minimize or eliminate residential and business problems. The two items added approximately \$900,000 for a 3-5 year construction period. If the project took less time, the money would be credited to the parcels. These two items added **\$761/parcel** to AD #87's costs.
- The bond reserve serves as security for the bond holder and is simply a function of the project costs. Historically, the City has funded the bond reserve at 5-6% which is low by typical standards. Most of the **\$576/parcel** difference is due to the overall project cost but is refunded to property owners when the assessment is paid off.
- Funded interest simply pre-pays the first year's interest upfront and insures that the project can proceed regardless of timing relative to the tax roll deadline in mid-August. Due to the size of AD #87, it was possible that one of many factors may have prevented this district's addition to the County tax roll. Therefore, AD #87 required funded interest payments of **\$994/parcel** that AD #78 didn't have. But this evens out in the end, because parcels are only charged interest over 15 years whether pre-funded or not.

Table 1
Underground Conversion Costs
Big Island vs. Little Island

			Big Island AD 87 - 2009			Little Island AD 78 - 2000			Increased Cost/ Parcel	% Change
			Parcels:		1182	Parcels:		229		
			Total Cost	% Cost	Cost/ Parcel	Total Cost	% Cost	Cost/ Parcel		
UTILITY CONSTRUCTION COSTS										
SCE			\$ 8,954,408	43.8%	\$ 7,576	\$ 1,253,474	59.1%	\$ 5,474	\$ 2,102	38%
AT&T			\$ 2,839,533	13.9%	\$ 2,402	\$ 476,083	22.4%	\$ 2,079	\$ 323	16%
Total Utility Construction Costs			\$ 11,793,941	57.7%	\$ 9,978	\$ 1,729,557	81.5%	\$ 7,553	\$ 2,425	32%
OTHER CONSTRUCTION COSTS										
Street-Alley Rehabilitation			\$ 3,436,000	16.8%	\$ 2,907	\$ -	0.0%	\$ -	\$ 2,907	
Construction Contingency			\$ 1,194,815	5.8%	\$ 1,011	\$ 157,356	7.4%	\$ 687	\$ 324	47%
Total Other Construction Costs			\$ 4,630,815	22.7%	\$ 3,918	\$ 157,356	7.4%	\$ 687	\$ 3,231	470%
Total Construction costs			\$ 16,424,756	80.4%	\$ 13,896	\$ 1,886,913	88.9%	\$ 8,240	\$ 5,656	69%
INCIDENTAL EXPENSES										
Assessment Engineering			\$ 125,000	0.61%	\$ 106	\$ 30,000	1.41%	\$ 131	\$ (25)	-19%
Contract Inspection			\$ 500,000	2.45%	\$ 423	\$ 1,000	0.05%	\$ 4	\$ 419	9587%
City Administration			\$ 400,000	1.96%	\$ 338	\$ 5,000	0.24%	\$ 22	\$ 317	1450%
Disclosure Counsel			\$ 60,000 *	0.29%	\$ 51		0.00%	\$ -	\$ 51	N/A
Financial Advisor			\$ 40,000 *	0.20%	\$ 34	\$ 7,786	0.37%	\$ 34	\$ (0)	0%
Filing Fees			\$ 20,000 *	0.10%	\$ 17	\$ 500	0.02%	\$ 2	\$ 15	675%
Bond Counsel			\$ 75,000 *	0.37%	\$ 63	\$ 26,000	1.23%	\$ 114	\$ (50)	-44%
Paying Agent			\$ 5,000 *	0.02%	\$ 4	\$ 2,500	0.12%	\$ 11	\$ (7)	-61%
Dissemination Agent			\$ 5,000 *	0.02%	\$ 4		0.00%	\$ -	\$ 4	N/A
Financial Printing, Reg. and Servicing			\$ 15,000 *	0.07%	\$ 13	\$ 4,000	0.19%	\$ 17	\$ (5)	-27%
Contingencies (for Incidental Expenses)			\$ 56,344	0.28%	\$ 48	\$ 10,700	0.50%	\$ 47	\$ 1	2%
Total Incidental Expenses			\$ 1,301,344	6.37%	\$ 1,101	\$ 87,486	4.12%	\$ 382	\$ 719	188%
FINANCING COSTS										
Underwriter's Discount			\$ 306,500	1.50%	\$ 259	\$ 42,293	1.99%	\$ 185	\$ 75	40%
Bond Reserve/Credit Enhancement			\$ 1,226,000	6.00%	\$ 1,037	\$ 105,732	4.98%	\$ 462	\$ 576	125%
Funded Interest			\$ 1,174,900	5.75%	\$ 994	\$ 0	0.00%	\$ -	\$ 994	N/A
Total Financing Costs			\$ 2,707,400	13.25%	\$ 2,291	\$ 148,025	6.97%	\$ 646	\$ 1,644	254%
TOTAL Incidental & Financing Costs			\$ 8,639,559	42.28%	\$ 7,309	\$ 392,867	18.51%	\$ 1,716	\$ 5,594	326%
TOTAL ASSESSMENT COSTS			\$ 20,433,500	100.00%	\$ 17,287	\$ 2,122,424	100.00%	\$ 9,268	\$ 8,019	87%
* Because the construction period was expected to exceed 3 years, it was assumed that two separate bond issues would be required, thus, doubling the normal transaction costs. Costs of issuance also scale upward with the size of the bond issue.										